

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 88-11-E - ORDER NO. 95-1512 ✓  
SEPTEMBER 14, 1995

IN RE: Application of Carolina Power & Light	)	ORDER ON
Company for General Increase in Rates	)	CAROLINA POWER &
and Charges.	)	LIGHT COMPANY'S
	)	PETITION FOR
	)	STATEMENT OF THE
	)	AMOUNT OF
	)	DECOMMISSIONING
	)	EXPENSE IN RATES

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Petition of Carolina Power & Light Company (CP&L) asking the Commission to state the amount of nuclear decommissioning expense intended to be included in CP&L's South Carolina retail (SCR) rates established in Commission Docket No. 88-11-E.

1. At the end of the economic and/or license lives of CP&L's nuclear units, CP&L must take certain action to decommission these nuclear units and have readily available the funds to perform the necessary activities. In CP&L's last general rate case (Docket No. 88-11-E), the Commission found that CP&L's proposed use of an internal modified sinking fund capital recovery method for funding its decommissioning reserve was reasonable. Under this method, CP&L retained decommissioning funds collected from the customer in an internal reserve and credited the fund

with interest earned on the principal contained in the fund. It was intended that each year, as the principal grew, the total annual amount of decommissioning funds set aside would increase due to the interest component increasing. That is, while the annual annuity payment to the internal fund would remain constant, the interest earned on the principal would increase each year, thus the total annual amount reserved for decommissioning would increase each year.<sup>1</sup>

2. In 1988, the Nuclear Regulatory Commission (NRC) issued regulations that required every nuclear generating unit licensee to issue a financial assurance report certifying that adequate funds will be available to decommission the unit. Such financial assurance was to be provided by the use of 1) prepayments to a segregated account outside the licensee's administrative control; 2) an external sinking fund; or 3) the Surety Method, Insurance or Other Guarantee Method. Pursuant to these regulations, CP&L filed its funding plan with the NRC on July 26, 1990. In its Plan, CP&L stated that it would begin contributing an amount, based on decommissioning recovery amounts established in its most recent general rate cases, to an external sinking fund trust beginning

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1. As a result, it is not possible to simply use the amount of nuclear decommissioning expense included in CP&L's last rate case test year to determine the amount of decommissioning cost the Commission intended to include in CP&L's base rates. Rather, it must be calculated. In fact, the amount stated in Order No. 88-864 as test year decommissioning was actually the annual decommissioning amount for one year that should be added to the amount already in rates to achieve the decommissioning amounts necessary to retire CP&L's nuclear units.

July 1, 1991. CP&L provided the Commission Staff a copy of this Funding Plan on August 20, 1990.

3. A utility can deduct, for federal income tax purposes, its contributions to a qualified external trust fund, but the amount of its annual contributions is limited by §468A of the Internal Revenue Code of 1986, as amended. In addition to CP&L realizing a tax deduction for monies deposited in the qualified external fund, earnings on such monies are taxed at a lower rate than those monies deposited in a non-qualified external trust fund. Because of the tax benefits achieved by using the qualified external trust, the ultimate dollar amount to be funded by CP&L's customers will be less than if such contributions were made to a non-qualified trust because less of the trust's income is used to pay income taxes and more of it is available to earn additional income in future periods and to fund decommissioning costs. As a result, in order to ensure that CP&L and its customers realize the tax advantages associated with decommissioning funding, CP&L wishes to identify the specific amounts of decommissioning expense the Commission intended to include in CP&L's retail rates for the years 1994, 1995, and 1996 prospectively so it can contribute these amounts to a qualified external fund and receive a tax deduction and benefit from the lower tax rates. As mentioned earlier, this amount is not expressly stated in Order No. 88-864, rather it must be calculated.

4. CP&L reviewed the pertinent information from Commission Docket No. 88-11-E and concluded that the current nuclear

decommissioning expense included in its South Carolina retail rates is as follows:

<u>Nuclear Unit</u>	<u>1994 Dollars</u>	<u>1995 Dollars</u>	<u>1996 Dollars</u>
Brunswick Unit 1	\$1,165,065	\$1,174,275	\$1,174,275
Brunswick Unit 2	\$1,459,143	\$1,471,159	\$1,471,723
Harris Unit 1	\$ 730,557	\$ 746,256	\$ 746,256
Robinson Unit 2	\$1,241,622	\$1,259,201	\$1,259,201
<b>TOTAL</b>	<b>\$4,596,387</b>	<b>\$4,650,891</b>	<b>\$4,651,455</b>

These calculations are based on the modified internal sinking fund depreciation method of capital recovery approved in Docket No. 88-11-E as modified by contributions made by CP&L to an external fund beginning in 1991. These expense amounts consist of the sum of the annuity and return components of decommissioning expense calculated in accordance with the modified internal sinking fund method.<sup>2</sup>

5. To ensure that CP&L receives the tax benefits permitted for the contributions made to its external qualified trust, CP&L petitioned the Commission to state that the current annual amount of nuclear decommissioning expense in CP&L's South Carolina retail rates are the amounts set forth above in Paragraph 4. Unless the Commission expressly states the amount of decommissioning expense

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2. Effective January 1, 1994, CP&L began depositing its entire annual decommissioning amount to the external fund, subject to IRS deductibility. Therefore, the accumulated reserve for funds held internally will increase only to the extent that external deposits are limited by IRS deductibility.

included in CP&L's South Carolina retail rates as requested herein, CP&L and its customers may lose the tax benefits described in Paragraph 3.

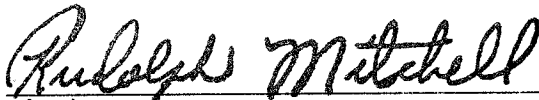
6. After careful consideration of CP&L's petition and the relevant evidence contained in the record of Docket No. 88-11-E, the Commission concludes that the 1994, 1995, and 1996 prospectively South Carolina retail amount of nuclear decommissioning expense is \$4,596,387; \$4,650,891; and \$4,651,455, respectively, based on the modified internal sinking fund depreciation method of capital recovery approved in Docket No. 88-11-E as modified by contributions made by CP&L to an external fund beginning in 1991. This expense calculated in accordance with the modified internal sinking fund method.

IT IS THEREFORE ORDERED THAT:


1. The 1994, 1995, and 1996 prospectively South Carolina retail amount of nuclear decommissioning in rates is \$4,596,387; \$4,650,891; and \$4,651,455, respectively, allocated to the respective nuclear units as above.

2. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Deputy Executive Director

(SEAL)